

VZCZCXRO3226  
PP RUEHAG RUEHBI RUEHCI RUEHLH RUEHPW RUEHROV RUEHSR  
DE RUEHAH #0112/01 0230712  
ZNY CCCCC ZZH  
P 230712Z JAN 09  
FM AMEMBASSY ASHGABAT  
TO RUEHC/SECSTATE WASHDC PRIORITY 2193  
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE  
RUCNCIS/CIS COLLECTIVE  
RUCNMEM/EU MEMBER STATES COLLECTIVE  
RUEHAK/AMEMBASSY ANKARA 4735  
RUEHBJ/AMEMBASSY BEIJING 2533  
RUEHKO/AMEMBASSY TOKYO 2398  
RUEHIT/AMCONSUL ISTANBUL 2983  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RHEHNSC/NSC WASHDC  
RHMFISS/CDR USCENCOM MACDILL AFB FL  
RUEAIIA/CIA WASHDC  
RHEFDIA/DIA WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUEKJCS/SECDEF WASHINGTON DC  
RUEHVEN/USMISSION USOSCE 3268

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000112

SIPDIS

STATE FOR SCA/CEN, EEB

E.O. 12958: DECL: 01/22/2019

TAGS: [PREL](#) [PGOV](#) [EFIN](#) [EIND](#) [EPET](#) [TX](#) [AORC](#)

SUBJECT: TURKMENISTAN: EBRD REVIEWS ITS STRATEGY -- IS  
CURRENT REFORM ENOUGH?

Classified By: Charge d'Affaires a.i. Richard Miles. Reasons 1.4 (B) a  
nd (D).

11. (C) SUMMARY: The European Bank for Reconstruction and Development (EBRD) office in Ashgabat is focusing on the question "how much reform is enough" to validate additional cooperation in Turkmenistan, in the context of a strategy evaluation exercise currently underway. If allowed, the resident office head plans to pursue energy efficiency projects in the oil and gas sector, and perhaps carbon finance projects. Currently subsidized gas prices result in USD 5-10 billion in wasted gas in Turkmenistan -- more than the entire annual gas usage of some small countries. EBRD is focusing on downsizing their loan amounts in order to focus on small businessmen who can really use it, rather than fund mega-projects. Currently, EBRD cannot invest in the oil and gas sector because it is state-controlled. High revenues in the oil and gas industry help Turkmenistan to insulate itself from outside pressure, but with time, it will realize what it is losing as a result its adherence to command economy principles -- including valuable investment projects for its largest sector. END SUMMARY.

TRI-ANNUAL EBRD STRATEGY EXERCISE UNDERWAY

12. (C) European Bank for Reconstruction and Development (EBRD) Resident Office Head, Neil McKain (please strictly protect), told the Charge in a meeting on January 13 that his office is working on a country strategy exercise, and projected that his office would complete it in September and publish it in April or May 2010. EBRD generally conducts these exercises every three years. McKain said that a focus in this exercise would involve "how much reform is enough" to validate moving ahead with cooperation in Turkmenistan.

ENERGY EFFICIENCY PROJECTS TOP WISH LIST

13. (C) If EBRD decides that Turkmenistan has made enough reform progress, McKain is interested in pursuing energy efficiency projects in the oil and gas sector, as well as a bridge project at Farap, and perhaps carbon finance projects. McKain said that the government will see the value of energy efficiency once it realizes the opportunity cost of oversubsidized gas that is wasted domestically and that

Turkmenistan can therefore not export elsewhere for revenue. Falling gas prices will also put a significant dent in the revenue stream. According to McKain, Turkmenistan has the potential to save \$5-10 billion per year, which is less than the energy use of certain small countries such as Slovakia. McKain envisions creating a rolling facility in which the profits from energy saved are reinvested in new efficiency projects. He added that the EBRD board would also find this concept attractive "because it is different from many vague transition projects, and it also doesn't directly support the regime." (NOTE: McKain noted that EBRD is currently not allowed to pursue projects in Turkmenistan's oil and gas sector because of Article 1 concerns -- since this sector is completely government controlled -- but could if some local private businesses were involved in the sector. END NOTE.)

DEALS IN PROGRESS: EQUITY INVESTMENTS SMALLER THAN IN THE PAST

14. (C) Since 1996, EBRD has invested 49 million Euros in the Turkmenbashi Jeans Complex, and currently owns 30 percent of the company shares. McKain believes in downsizing loans from levels such as those invested in the jeans factory, in order to make a broader impact and assist those who can use the funds. EBRD is now working on several smaller deals to support entrepreneurs and entrepreneur-owned businesses in Turkmenistan.

-- Credit lines of USD 3.5 million each with Senagat Bank and Turkmenbashi Bank that would enable lending to small and medium enterprises, and that include training programs for

ASHGABAT 00000112 002 OF 002

staff in the banks' credit offices;

-- Equity of 3.5 million Euros to enable Enar Supermarkets to expand from the two stores the company currently operates to 15 stores, by 2010;

-- Investment of at least USD 2 million to start expansion of the Altyn Aylag Brewery;

-- Equity investment of USD 3.5-4 million for new trucks and refrigerators for Salkyn, an ice cream company; and

-- USD 2 million to invest in a new production line for the Husar chocolate bar factory.

15. (C) COMMENT: High revenues from oil and gas help Turkmenistan insulate itself from outside pressure to reform the economy. With time and more international exposure, however, it might realize the sacrifice it is making by sticking to command economy principles -- including the loss of valuable investment projects for its largest sector. Until then, EBRD will continue to try to shore up entrepreneurs, who need all the help they can get in a difficult business environment. END COMMENT.  
MILES